

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00  
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01  
L-03 H-01 PA-01 PRS-01 /093 W  
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R 241339Z FEB 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 0927  
INFO USMISSION OECD PARIS  
USMISSION EC BRUSSELS  
AMEMBASSY BONN  
AMEMBASSY TOKYO

C O N F I D E N T I A L LONDON 03132

E.O. 11652: YJDS-1  
TAGS: EGEN, UK  
SUBJECT: COMMENTS OF CHANCELLOR HEALEY

1. CHANCELLOR DENIS HEALEY, IN A LUNCHEON CONVERSATION WITH EMBASSY OFFICERS FEBRUARY 23. EXPRESSED CONFIDENCE IN AN IMPROVING ECONOMIC SITUATION FOR BRITAIN IN THE COMING YEAR. HEALEY SAID HE HAS BEEN THROUGH THREE DIFFICULT YEARS; THE GOOD PROSPECT FOR THIS YEAR IS ONE OF THE REASONS HE PREFERRED TO STAY AT THE TREASURY (AFTER THE DEATH OF FOREIGN SECRETARY ANTHONY CROSLAND). HE SAID THE STRENGTH OF STERLING IN THE MARKET IS A MUCH MORE CONVINCING INDICATOR THAN THE CONTINUING PRESS SKEPTICISM ABOUT THE ECONOMIC FUTURE OF BRITAIN, AND ALSO IN ITSELF AN IMPORTANT ECONOMIC FACTOR. THE ONLY THING THAT WOULD DESTROY THE RELATIVELY FAVORABLE PROSPECTS WOULD BE A WAGE EXPLOSION, AND, WITH HIS USUAL CONFIDENCE, HE THINKS THE TUC WILL BE REASONABLE AND, IN THE END, A WAGE RESTRAINT PACKAGE WILL BE AGREED.

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2. A WAGE PACKAGE WILL BE MORE DIFFICULT THIS YEAR, HEALEY SAID, BECAUSE THE INCREASE IN THE RETAIL PRICE INDEX HAS SUBSTANTIALLY EXCEEDED WAGE INCREASES, MEANING A REAL FALL IN REAL EARNINGS. FURTHERMORE. FOR REASONS BEYOND HIS CONTROL (DROUGHT. DROP IN STERLING). HE HAS BEEN UNABLE TO KEEP HIS PROMISE TO HALVE INFLATION OVER THE PAST YEAR (IT HAS IN FACT RISEN). HOWEVER THE SIX

TUC REPRESENTATIVES WITH WHOM HE DEALS UNDERSTAND THE IMPORTANCE OF RESTRAINT AND HE BELIEVES THEY WILL BE ABLE TO CARRY THE DAY.

3. THE CHANCELLOR SAID HE WILL MEET THE PSBR AND DOMESTIC CREDIT EXPANSION LIMITS AGREED WITH THE IMF, THOUGH ONE OF THE MORE DIFFICULT QUESTIONS HE FACES IS HOW MUCH (INCOME) TAX RELIEF HE CAN GIVE WITHOUT IMPERILLING THESE LIMITS. SOME INCREASE IN INDIRECT TAXES TO BALANCE DIRECT TAX RELIEF OF COURSE ALSO COULD BE CONTEMPLATED. OTHER PROBLEMS ARE THE TIMING OF TAX CUTS AND A WAGE PACKAGE AND HOW TO RELATE THE TWO, I.E. TO WHAT EXTENT AND HOW CONDITIONALITY CAN BE ESTABLISHED.

4. AS REGARDS THE GLOBAL MACROECONOMIC PICTURE, HEALEY SAID STIMULATION OF THE STRONG ECONOMIES IS IMPORTANT, BUT HE IS INCLINED TO THINK IN THE CASES OF GERMANY AND JAPAN THE CORRECTION OF CURRENCY UNDERVALUATION IS MORE IMPORTANT. HE EMPHASIZED THAT THIS VIEW IS PERSONAL.

ARMSTRONG

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## Message Attributes

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